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STONE &
WEBSTER
INCORPORATED

1972 ANNUAL REPORT



primarily related to the transportation of purchased gas through the pipeline system of Industrial Gas Supply Corporation, decreased due to the sale in June 1972 of Industrial. The oil and gas production properties formerly owned and operated by Industrial were retained and are being operated by Enterprise Resources, Incorporated, a new subsidiary.

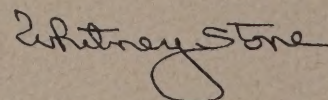
Early in 1973, we announced plans to construct a \$40 million office building in the South Station area of Boston subject to various municipal and federal government approvals. The 900,000 square foot facility will be occupied by Stone & Webster Engineering Corporation and is designed to house a staff of approximately 5,000 employees when completed in 1975.

During 1972 the media have devoted increasing attention to the "energy crisis" and there has been a growing public awareness that we face major changes in the costs and sources of energy required for both home and industry. Industry in general has been well aware of the developing energy supply problems for several years and has been moving aggressively to cope with the accelerating pace of change in this area. This has involved innovative forward planning, the application of advanced technologies and vast capital commitments for new facilities. Since the industries for which Stone & Webster provides engineering, financing and management consulting services are among those most affected, this has had a correspondingly large impact on the entire Stone & Webster organization. The need for the kind of interrelated services Stone & Webster can furnish has increased dramatically, and our staff has been expanded in both size and diversity of capabilities as rapidly as is consistent with the maintenance of a high standard of quality.

Henry U. Harris retired from the Board in 1972, having served the company as a Director since 1950. Mr. Harris was a most valuable Director, and we note his retirement with regret.

Effective January 1, 1973, Frank B. Muhlfeld was elected Chairman of the Executive Committee and a Director of Stone & Webster, Incorporated. Formerly Chairman of Stone & Webster Securities Corporation, Mr. Muhlfeld has been associated with Stone & Webster since 1946. He succeeds Richard N. Benjamin, who retired after 45 years of loyal and effective service to the Stone & Webster organization. We are pleased that Mr. Benjamin will continue as a Director of the company.

We deeply appreciate the dedicated efforts of Stone & Webster employees throughout the world who helped to make 1972 such a successful year.

A handwritten signature in dark ink, appearing to read "Whitney Stone". The signature is fluid and cursive, with a large, stylized "S" at the end.

Chairman of the Board

February 21, 1973

STONE & WEBSTER ENGINEERING CORPORATION

1972 was another period of outstanding achievement for Stone & Webster Engineering Corporation. Several new and challenging nuclear and fossil-fired electric generating projects were awarded to the Corporation together with awards for a variety of petroleum, petrochemical and industrial assignments, evidencing a significant resurgence in the Corporation's process activities.

In the nuclear field, five Wisconsin electric utilities, Wisconsin Michigan Power Company, Wisconsin Public Service Corporation, Madison Gas and Electric Company, Wisconsin Power & Light Company and Wisconsin Electric Power Company, with the last named acting as agent for the group, selected the Engineering Corporation as the engineer-constructor for design and construction of a dual unit nuclear power station having a capacity of 1,800,000 kilowatts. The Engineering Corporation was also selected by Northeast Utilities as the engineer-constructor for a nuclear plant proposed for operation on the Northeast system in the early 1980's.

Preliminary engineering services for dual nuclear units were authorized by Virginia Electric and Power Company and also by Long Island Lighting Company. Preliminary engineering services were also carried out in connection with Duquesne Light Company's Beaver Valley Unit No. 2. Other companies sharing in the ownership of this proposed second nuclear unit are Pennsylvania Power Company, Ohio Edison Company, Toledo Edison Company and Cleveland Electric Illuminating Company.

With respect to fossil-fired electric generating plants, awards during the year included assistance to El Paso Electric Company for its combined cycle Lockhart Station and engineering and construction of Niagara Mohawk Power Corporation's 850,000 kilowatt oil-fired Oswego Steam Station No. 6. Oswego No. 5, now under construction by the Engineering Corporation, is scheduled for completion in 1974.

The Engineering Corporation was authorized by the Power Authority of the State of New York to proceed with engineering feasibility and site studies relating to the design and construction of a new electric generating plant.

Four electric generating plants were completed by the Corporation during 1972: Virginia Electric and Power Company's 819,000 kilowatt Surry Unit No. 1, which is VEPCO's first nuclear power station and the first commercial nuclear power station to be built in the Commonwealth of Virginia; the 855,000 kilowatt Maine Yankee nuclear plant of Maine Yankee Atomic Power Company, the first nuclear plant to be completed in Maine and the third to be constructed by Stone & Webster in New England; El Paso Electric Company's 160,000 kilowatt gas-fired Unit No. 8 at Rio Grande Power Station; and Great Northern Paper Company's 50,000 kilowatt extension to the Millinocket Power Station at Millinocket, Maine.

Significant hydroelectric activity by the Corporation continued in 1972. Placed in service near the end of the year was the first of four 250,000 kilowatt units of the Northfield Mountain Pumped Storage Project of Northeast Utilities which, when completed in mid-1973, will be the largest operational pumped storage



plant in the world. Engineering work continued on the Rock Island Second Powerhouse for Public Utility District No. 1 of Chelan County, Washington. The Second Powerhouse will contain eight 45,500 kilowatt bulb-type generating units, the first such submerged units to be installed in the United States and larger than any currently in operation in the world. Engineering and construction management services were undertaken and completed in connection with certain improvements, alterations and repairs to Pacific Power & Light Company's Condit Dam on the White Salmon River in Washington.

Seven electric generating projects are scheduled for completion in 1973. These include four fossil-fired, two nuclear and one pumped storage project.

Environmental activities increased during 1972. Site evaluations and site selection studies, with emphasis on environmental impact, became a significant part of most new projects. This trend is expected to continue. Ten environmental reports for nuclear and fossil-fueled plants were completed during 1972 and six more reports are in progress. Participation with two of the Corporation's clients continues in development programs designed to reduce particulate emissions from fossil-fired generating plants by using chemical additives.

Process activities increased in 1972. Baltimore Gas & Electric Company authorized the Engineering Corporation to provide complete engineering, design, procurement and construction services to increase the capacity of its existing Northcliff, Baltimore, Maryland propane air send-out facility from 60 to 90 million cubic feet per day.

Apco Oil Corporation authorized the Engineering Corporation to start engineering work on the design of a Synthetic Natural Gas (SNG) plant having a capacity of 125 million cubic feet per day of gas for installation in Chester County, Pennsylvania employing the Lurgi Mineraloeltechnik GmbH/Badische Anilin und Soda Fabrik (Lurgi/BASF) Gasyntan Process, for which the Engineering Corporation is a licensee. This project is subject to final approval of federal and state regulatory departments.

Engineering work was initiated for Wisconsin Electric Power Company on a pilot plant directed toward a 75,000 kilowatt demonstration facility to be installed to desulfurize the flue gas from a coal-fired steam boiler now operating as an integral part of one of its electric generating units. Inland Steel Company authorized the Engineering Corporation to provide engineering services in connection with facilities to clean up the stack gas from four 350,000 pounds per hour boilers in its steel mill in East Chicago, Indiana.

Work was completed on the 66 million gallons per year direct hydration ethyl alcohol plant at Tuscola, Illinois for U. S. Industrial Chemicals Company, a division of National Distillers and Chemical Corporation. A natural gas liquefaction plant, including storage unit and send-out facilities, was also completed for Atlanta Gas Light Company and work continued on the expansion of these facilities, including an additional 450 thousand barrels of liquefied natural gas storage and associated pumping system for the send-out facility.

Work continued on two major petrochemical complexes previously awarded. For Hemijiska Industrija, engineering proceeded on a 200,000 metric tons per

Stone & Webster Engineering Corporation designed and constructed this nuclear power station in Wiscasset, Maine, for Maine Yankee Atomic Power Company. In commercial operation since December 28, 1972, this new facility has an ultimate net design capacity of 855,000 kilowatts.



year ethylene plant employing Stone & Webster's Ultra Selective Conversion (USC) process. This plant will be constructed as the core facility of Yugoslavia's first major petrochemical complex at Pancevo, Yugoslavia. A similar ethylene plant of 230,000 metric tons per year capacity, also employing the USC process, is under design for Chinese Petroleum Corporation's Taiwan complex. Storage and other offsite facilities, as well as process units for propylene production, butadiene extraction and gasoline hydrogenation, are included in this assignment.

Engineers and constructors who serve the utility industry are faced with a significant volume of work in the '70's and beyond. In anticipation of this, the Engineering Corporation several years ago embarked on a new approach to its work called the Engineering Resources Concept. Under this approach, many highly experienced engineers continuously apply their specialized skills towards improving established designs, solving the most challenging and difficult engineering problems confronting current projects and standardizing designs in those areas where proven approaches have demonstrated their value. The results of this new dimension are now maturing and Stone & Webster finds its ability to undertake additional work substantially enhanced as a result of its increased effectiveness in expeditiously producing plant designs which meet its criteria for engineering excellence.

The Engineering Corporation's employees continue to extend their knowledge and skills through participation in a variety of internal educational and development programs and outside courses. More than one third of the Corporation's employees during the year continued their education either at work or at educational institutions in career oriented programs sponsored by the Corporation. During the year the Corporation restructured its top echelon of management to give younger people more responsibility and to strengthen management participation in all phases of services to clients.

STONE & WEBSTER ENGINEERING LIMITED

Stone & Webster Engineering Limited remained active although industrial expansion in Europe in 1972 continued at a low level. Following a consultancy assignment carried out in 1971, the Company was authorized to proceed with the design and construction of a new whiskey distillery for Irish Distillers Limited. The distillery, which will have an annual capacity of over 6,000,000 U. S. proof gallons, will be sited near Cork and will be the first new distillery to be built in the Republic of Ireland for many years.

A contract was received for the design and construction of an ale fermentation and storage plant in Dublin, Ireland, for Arthur Guinness Son and Co. (Dublin) Limited. A contract was awarded by Compagnie Algerienne de Recherche et D'Exploitation Petroliere (ALREP) for gas boosting and re-pressuring facilities at Hassi Messaoud in Algeria and on which Stone & Webster Engineering S. A. in Paris is collaborating. Another contract award in 1972 was made by ARAMCO to our Dutch affiliate, Stone & Webster Engineering B. V., for the design of a gas turbine generator power station in Saudi Arabia.

Stone & Webster Engineering Limited is engineering and constructing the United Kingdom brewery for Bass Charrington which, when complete, will be Europe's largest single unit.

The 1972 addition of this 160,000 kilowatt Unit No. 8 at Rio Grande Power Station brings the total system capability of El Paso Electric Company to approximately 800,000 kilowatts.



During 1972, work was completed in France on the large olefin complex for Total Chimie. The ethylene plant and associated facilities which were designed and erected in Spain for E. N. Calvo Sotelo are now in operation and the large petrochemical plant in South Wales for BP Chemicals International Ltd. is in the commissioning stage. Work continues on the major brewery complex in the United Kingdom for Bass Charrington and good progress is also being made on the ethylene plant for Shell Nederland Chemie B. V. at Moerdijk in Holland.

STONE & WEBSTER CANADA LIMITED

Stone & Webster Canada Limited was awarded several new contracts during 1972, including contracts for the engineering, design and construction of a new distillery for International Distillers Canada Limited in Lethbridge, Alberta, a steel bar mill expansion for Burlington Steel Company in Hamilton, Ontario, a bromobutyl rubber plant for Polymer Corporation Limited in Sarnia, Ontario and a chemical plant for the production of nylon intermediate products for Du Pont of Canada Limited at Maitland, Ontario.

A number of engineering and design assignments for various projects were obtained, including a major water pump house for Dow Chemical of Canada Limited, ski-jumps for a Nordic Ski Centre in Quebec and assignments for Shell Canada Limited in the environmental and production areas. Reports and appraisals were prepared for several Canadian clients in cooperation with Stone & Webster Management Consultants, Inc. and the Appraisal Department of Stone & Webster Engineering Corporation, and a plant location and facility study was made for a United States client.

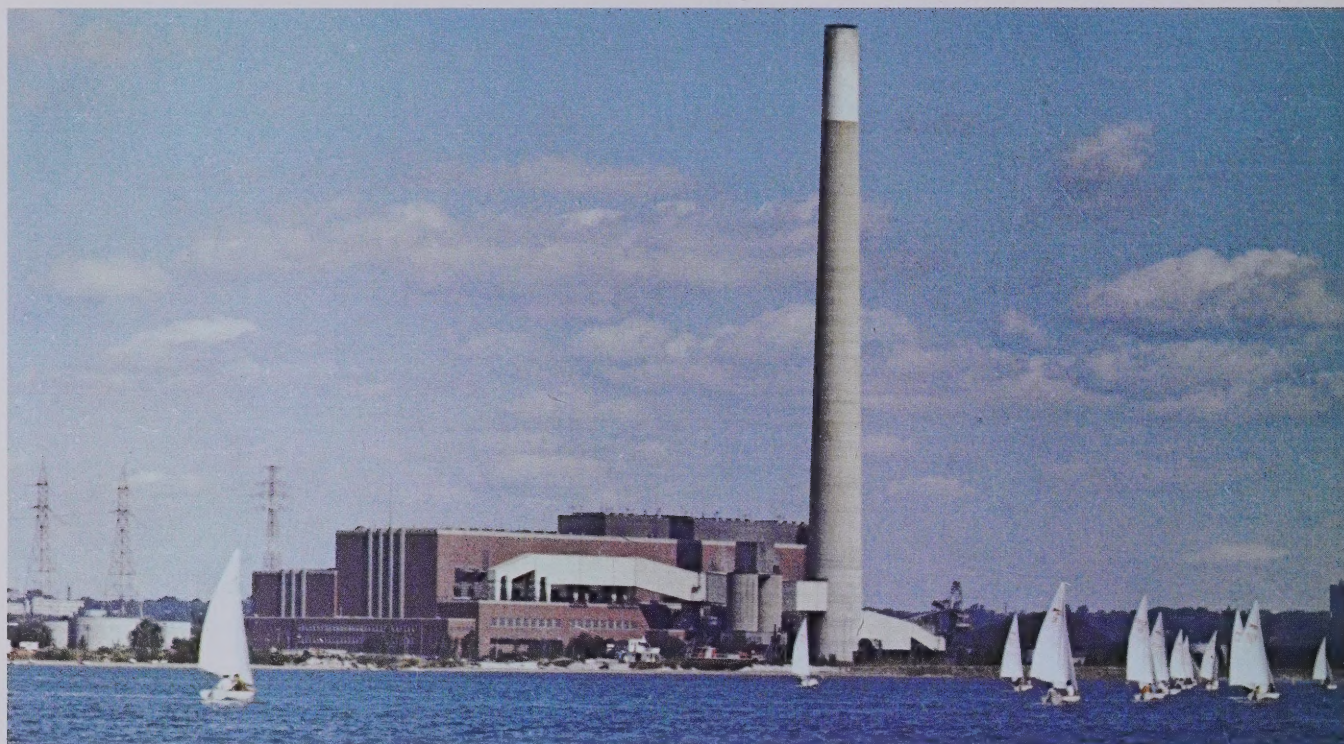
Work is continuing on the Humanities Library project for the University of Toronto and the expansion of facilities for The Algoma Steel Corporation, Limited at Sault Ste. Marie, Ontario. Additional construction assignments for Algoma include the No. 2 Basic Oxygen Steelmaking Plant, work for the No. 7 Blast Furnace and No. 2 Lime Plant and other projects. Completed work in 1972 included the 700 foot stack at the Hearn Generating Station of The Hydro-Electric Power Commission of Ontario and assignments for Shell Canada Limited and Sherritt Gordon Mines Limited.

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

Stone & Webster Management Consultants, Inc. provided consulting and advisory services to 142 clients, 43 of whom received these services under continuing annual contracts and the remainder under contracts for special projects. Clients are located in nearly every section of the United States and several foreign countries and include industrial companies, transportation organizations, utilities, banks, land developers, governmental agencies, and private investors.

The professional staff of Management Consultants is comprised of engineers, accountants, economists and specialists in a variety of other disciplines. Services rendered during the year involved most areas of management responsibility, including organizational and marketing studies, valuations, joint ventures, financing programs, construction planning, depreciation studies,

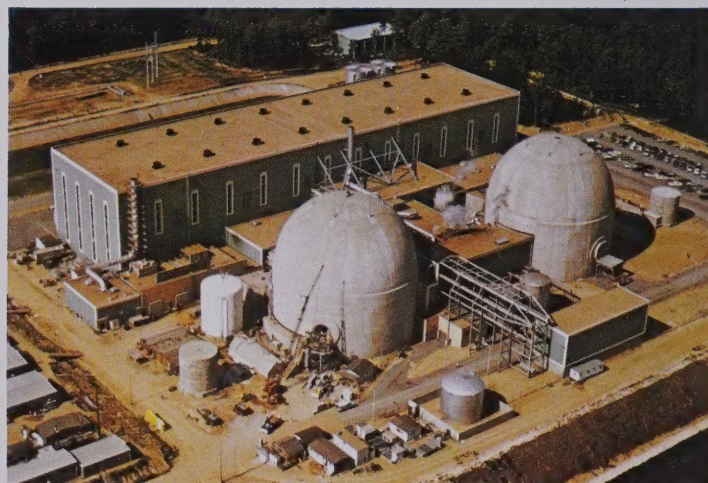
The last big lift shown here (40 tons to a height of 280 feet) was carried out on Shell's ethylene plant at Moerdijk, The Netherlands. Designed and constructed by Stone & Webster Engineering Limited, the unit, when completed in 1973, will be the world's largest single train heavy oil cracker.



1



2



3



4

1
Designed by Stone & Webster Canada Limited, the 700 foot stack for Ontario Hydro's Richard L. Hearn Generating Station was completed in 1972 and is an example of a long and continuing relationship with one client starting in 1934. This \$9 million stack, replacing the eight existing stacks, contributed to a significant reduction in air pollution in Metropolitan Toronto.

2
Stone & Webster Canada Limited is carrying out the construction of the No. 2 Basic Oxygen Steelmaking Plant at Sault Ste. Marie, Ontario for The Algoma Steel Corporation, Limited. This multi-million dollar plant will be one of the most modern steelmaking installations in Canada and will have a minimum production capacity of 3 million tons of steel per year.

3
Virginia Electric and Power Company's Surry Power Station was designed and constructed by Stone & Webster Engineering Corporation. Each of these two nuclear units has a capability of 819,000 kilowatts. The first unit was put in operation in 1972 and the second is scheduled for 1973.

4
U. S. Industrial Chemicals Company, a division of National Distillers and Chemical Corporation, has increased its production capacity in industrial ethyl alcohol to 66 million gallons per year with this new plant at Tuscola, Illinois. The plant was designed and constructed by Stone & Webster Engineering Corporation.

operational analyses, acquisitions and mergers, simplification of office procedures, automated accounting and record keeping, tax matters, labor negotiations, marketing and public relations programs, computer systems and program support, and insurance and pension programs.

Assistance to utilities in their efforts to obtain rate increases continued at a high level, and a variety of assignments were undertaken for transportation clients, including regional authorities and privately owned companies with urban, suburban, and intercity operations. Advisory services were also provided for public housing projects in Boston and Cleveland.

Stone & Webster Overseas Consultants Inc., a subsidiary of Management Consultants, completed its gas conversion work in Australia during the year. Work continues in Brazil under contract with Engevix, S. A., Rio de Janeiro, for consulting services to Companhia Municipal de Gas (COMGAS), Sao Paulo. An additional contract, in consortium with Engevix, has been received from COMGAS involving development of a master plan for gas service in Greater Sao Paulo, an area with a population of approximately 10 million. The contract calls for design of a gas distribution system, analysis of gas supply alternatives, market surveys and recommendations for corporate organization. Several additional assignments were undertaken involving marketing studies for United States-based industrial companies doing business in Brazil.

STONE & WEBSTER SECURITIES CORPORATION

Continuing in its position as one of the country's major investment bankers, Stone & Webster Securities Corporation in 1972 managed or co-managed \$1.3 billion of corporate bond and stock offerings, including thirteen private placements of securities with institutional investors. Total underwriting participations were a record \$762 million, involving a total of 711 issues.

1972 was a year in which there was growing public awareness of the "energy crisis." The scarcity of natural resources, and especially natural gas for domestic consumption, involved Stone & Webster Securities Corporation as managing underwriter in a \$128 million financing for a major United States corporation. The proceeds of the underwriting were used by the client in the acquisition of substantial oil and gas leases in the Gulf of Mexico for furthering the client's exploration and development program.

The Corporation expanded its efforts in block trading of listed securities, market making in corporate bonds and over-the-counter securities and dealing in Federal Agency securities for both institutional and retail clients.

Stone & Webster Securities Corporation operates 26 offices throughout the United States and is an associate member of the American Stock Exchange, a member of the Midwest Stock Exchange and a member of the Pacific Coast Stock Exchange. It is a primary market maker on the over-the-counter NASDAQ System and in corporate bonds. The Securities Corporation is also a major underwriter of and dealer in state and municipal securities.

GAS AND OIL OPERATIONS

Activities in this field, which are handled by four subsidiaries, include the operation of natural gas and oil wells and exploration for new supplies of gas and oil in the Southwestern United States and in Canada.

Enterprise Resources, Incorporated, Houston, Texas, is a new company formed to own and operate the gas and oil production properties in Texas previously owned by Industrial Gas Supply Corporation. These properties were retained when Industrial Gas was sold in June 1972 to Lone Star Gas Company, Dallas, for \$13,750,000. As previously mentioned in this report, this sale resulted in an extraordinary gain to Stone & Webster of \$3,974,000, or \$1.06 per share. Another company, Enterprise Gas, Incorporated, is engaged in the business of purchasing, gathering and transporting natural gas for resale to distributors, and also exploring for gas and oil in the Southwest, primarily in Texas. San Salvador Development Company, Inc. owns gas and other mineral interests, principally in Texas, and continues to receive installment payments resulting from the sale of a major natural gas interest in 1962. Spruce Hills Production Company, Inc. owns varying interests in over 500 oil and gas wells located principally in the Province of Alberta, Canada. Additional development drilling is now under way in three of the fields where the Company holds interests.

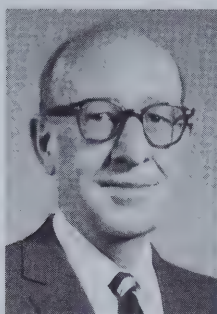
With respect to each of its gas and oil activities, Stone & Webster receives the guidance of its Houston-based personnel, all of whom had been associated with Industrial Gas for many years prior to its sale. Stone & Webster continues to be interested in increasing its investment in the oil and gas business in the United States and Canada, principally in exploration and the development of producing properties.

COMMERCIAL COLD STORAGE, INC.

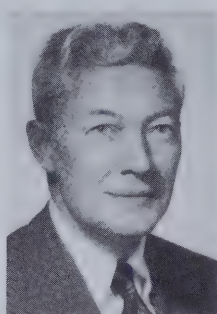
In 1972 Commercial Cold Storage, Inc. completed a major addition to its facility in Northeast Atlanta. The new addition is now occupied by Refrigerated Transport Co., Inc., the nation's largest refrigerated food products carrier. Early in 1972 Commercial completed work on its own in-house, on-line computer which provides its customers with instant access to inventory levels of their products and speeds the flow of paper work. In January 1972 Commercial inaugurated a freight consolidation program that is effecting substantial savings in transportation costs for its customers by providing them with scheduled less-than-truckload shipments at truckload rates throughout the southeastern United States.

STONE & WEBSTER, Incorporated

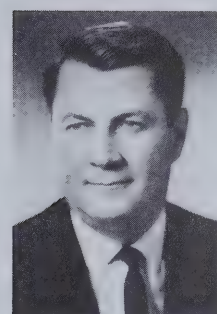
Directors



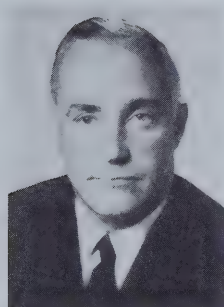
WHITNEY STONE
Chairman of the Board



RAYMOND C. FOSTER
Vice Chairman of the Board



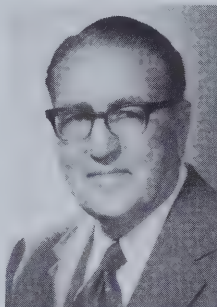
HALMER L. BAKER
President



FRANK B. MUHLFELD
Chairman of Executive Committee



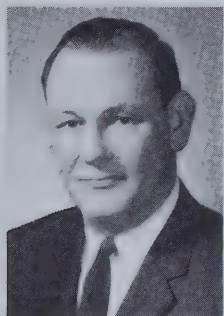
JOHN H. ALEXANDER
Partner
Mudge Rose Guthrie
Alexander & Mitchell



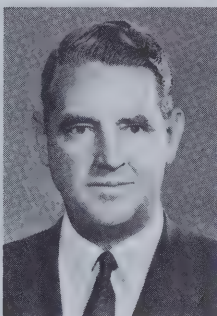
RICHARD N. BENJAMIN
Former President
Stone & Webster, Incorporated



EDWARD C. BREWSTER
Trustee



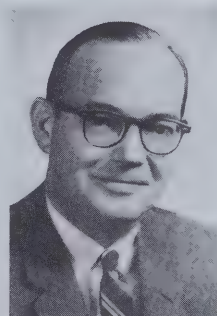
WILLIAM L. BROWN
President
The First National Bank
of Boston



HOWARD L. CLARK
Chairman of the Board
American Express Company



J. PETER GRACE
Chairman of the Board
W. R. Grace & Co.



ROBERT K. SCHELL
Executive Vice President
The Chase Manhattan Bank, N.A.

Officers

Chairman of the Board
WHITNEY STONE

Vice Chairman of the Board
RAYMOND C. FOSTER

President
HALMER L. BAKER

Chairman of Executive Committee
FRANK B. MUHLFELD

Financial Vice President
WILLIAM M. EGAN

Vice Presidents

JOHN A. CARTER, JR.
ASHTON G. ELDREDGE
R. V. WHISNAND

Secretary

FRANKLIN E. CONGER

Treasurer

ROBERT F. GALLAGHER

Transfer Agent

THE CHASE MANHATTAN
BANK, N.A.
NEW YORK

Registrar

MANUFACTURERS HANOVER
TRUST COMPANY
NEW YORK

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31, 1972	Year Ended December 31, 1971
Gross Earnings:		
Engineering and construction services (Note C)	\$57,687,000	\$42,114,000
Consulting and other services	4,783,000	4,683,000
Securities underwriting and trading, and other income incident to investment banking business (Note D)	16,545,000	15,712,000
Natural gas and oil sales, profit and other income from mineral interests <i>Includes gross earnings of \$3,350,000 in 1972 and \$7,346,000 in 1971 from discontinued operations. (Note E)</i>	5,918,000	9,690,000
Cold storage and related activities	2,035,000	2,089,000
Dividends and interest	4,861,000	4,854,000
Profits on investment securities	—	1,131,000
<i>After taxes, represents net income per share of \$.37 in 1971.</i>		
Rents	1,510,000	1,527,000
Other	726,000	426,000
Total	94,065,000	82,226,000
Operating and General Expenses	60,544,000	57,105,000
<i>Includes cost of gas purchased for resale of \$2,649,000 in 1972 and \$5,600,000 in 1971. (Note E)</i>		
Taxes, Other than Income Taxes	2,331,000	2,068,000
Provision for Depreciation and Depletion (Note F)	1,633,000	1,652,000
Interest Expense	1,664,000	1,022,000
Total	66,172,000	61,847,000
Income before Provision for Income Taxes and Extraordinary Item	27,893,000	20,379,000
Provision for Income Taxes:		
Federal	10,278,000	6,699,000
State, local and foreign	2,091,000	692,000
	12,369,000	7,391,000
Income before Extraordinary Item (per share*: \$4.13 in 1972; \$3.34 in 1971)	15,524,000	12,988,000
Extraordinary Item:		
Gain on sale of subsidiary, (per share*: \$1.06) (Note E)	3,974,000	—
<i>After deduction of related taxes of \$2,675,000.</i>		
Net Income (per share*: \$5.19 in 1972; \$3.34 in 1971)	19,498,000	12,988,000
Retained Earnings at beginning of year (Note B)	69,973,000	64,354,000
Total	89,471,000	77,342,000
Dividends Declared (Note G)	5,796,000	7,369,000
Retained Earnings at end of year	\$83,675,000	\$69,973,000

* Per share figures based on average number
of shares outstanding during each period.

See Notes to Financial Statements.

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1972	December 31, 1971
Current Assets:		
Cash	\$ 14,135,000	\$ 11,018,000
U. S. Government Securities and Bank Certificates of Deposit	22,614,000	15,669,000
Securities incident to investment banking business, at cost	57,124,000	32,098,000
<i>Total based on market quotations: \$57,263,000 at December 31, 1972 and \$32,718,000 at December 31, 1971.</i>		
<i>Includes securities, carried at \$53,000,000 at December 31, 1972 and \$28,595,000 at December 31, 1971, pledged as collateral for bank loans.</i>		
Accounts, Notes and Interest Receivable	50,259,000	41,039,000
<i>Includes \$32,881,000 at December 31, 1972 and \$26,088,000 at December 31, 1971 incident to the investment banking business.</i>		
Unbilled Charges under Contracts	11,524,000	9,513,000
Other Current Assets	24,000	139,000
Total Current Assets	155,680,000	109,476,000
Clients' Funds Held under Construction Contracts (per contra)	966,000	667,000
Other Investment Securities, at cost (Notes G and H)	6,547,000	7,218,000
<i>Total based on market quotations: \$66,166,000 at December 31, 1972 and \$68,407,000 at December 31, 1971 (no allowance made for taxes on unrealized appreciation).</i>		
Long-Term Receivable, less amount included under Current Assets	2,279,000	2,649,000
<i>From sale of natural gas interest, due in varying amounts from 1974 to 1980.</i>		
Natural Gas and Oil Properties and Other Mineral Interests	4,644,000	11,717,000
<i>At cost, less accumulated depreciation and depletion of \$3,222,000 at December 31, 1972 and \$9,878,000 at December 31, 1971.</i>		
Cold Storage Plant and Equipment	7,369,000	6,891,000
<i>At cost, less accumulated depreciation of \$1,364,000 at December 31, 1972 and \$1,143,000 at December 31, 1971.</i>		
Office Building and Other Property	4,567,000	4,391,000
<i>Building at less than cost, other property at cost, less accumulated depreciation of \$4,724,000 at December 31, 1972 and \$4,550,000 at December 31, 1971.</i>		
Furniture and Equipment	3,993,000	3,290,000
<i>At cost, less accumulated depreciation of \$4,143,000 at December 31, 1972 and \$3,557,000 at December 31, 1971.</i>		
Other Assets and Deferred Charges	5,938,000	6,703,000
<i>Includes cost in excess of equity of firms acquired prior to November 1, 1970 of \$1,961,000 at December 31, 1972 and 1971.</i>		
	<u>\$191,983,000</u>	<u>\$153,002,000</u>

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1972	December 31, 1971
Current Liabilities:		
Notes Payable (bank loans)	\$ 44,890,000	\$ 25,016,000
<i>Indebtedness of investment banking subsidiary, with securities pledged as collateral.</i>		
Accounts Payable	29,396,000	30,545,000
<i>Includes \$25,325,000 at December 31, 1972 and \$19,754,000 at December 31, 1971 incident to the investment banking business.</i>		
Dividends Declared (Note G)	361,000	1,840,000
Advance Payments by Clients	8,462,000	9,020,000
Long-Term Debt (payments due within one year)	188,000	181,000
Accrued Federal, State and Other Taxes	10,053,000	1,434,000
Other Accrued Liabilities	10,108,000	5,864,000
Total Current Liabilities	103,458,000	73,900,000
Clients' Funds Held under Construction Contracts (per contra)	966,000	667,000
Long-Term Debt of Commercial Cold Storage, Inc. (a subsidiary), less amount shown under Current Liabilities	914,000	1,102,000
<i>Due in varying amounts from 1974 to 1978, and bearing interest at various rates.</i>		
Deferred Profit	2,597,000	2,960,000
<i>From sale of natural gas interest, being taken into earnings on installment basis.</i>		
Deferred Federal Income Taxes	529,000	2,013,000
Stockholders' Equity:		
Preferred Stock	—	—
<i>Authorized, 2,000,000 shares of no par value; none issued.</i>		
Common Stock, carried at	7,970,000	7,869,000
<i>Authorized, 10,000,000 shares of \$1 par value; issued, 4,287,502 shares, including shares held in treasury. (Note H)</i>		
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000
Retained Earnings	83,675,000	69,973,000
	100,572,000	86,769,000
Less Common Stock in Treasury, at cost	17,053,000	14,409,000
<i>545,030 shares at December 31, 1972 and 414,532 shares at December 31, 1971. (Note H)</i>		
Total Stockholders' Equity	83,519,000	72,360,000
	<u>\$191,983,000</u>	<u>\$153,002,000</u>

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1972	Year Ended December 31, 1971
Source of Funds:		
Operations:		
Income before extraordinary item	\$15,524,000	\$12,988,000
Depreciation and depletion	1,633,000	1,652,000
	<u>17,157,000</u>	<u>14,640,000</u>
Extraordinary item—proceeds from sale of subsidiary, net	11,109,000	—
Market value of treasury shares issued	325,000	—
	<u>\$28,591,000</u>	<u>\$14,640,000</u>
Application of Funds:		
Additions to property, plant and equipment	\$ 2,731,000	\$ 2,891,000
Purchase of common stock for treasury	2,868,000	2,108,000
Dividends declared (Note G)	5,796,000	7,369,000
Increase (decrease) in other assets and liabilities	550,000	(641,000)
Increase (decrease) in working capital:		
Increase (decrease) in cash and cash items	10,062,000	(4,894,000)
Increase in other current assets	36,142,000	37,302,000
(Increase) in current liabilities	(29,558,000)	(29,495,000)
	<u>\$28,591,000</u>	<u>\$14,640,000</u>

NOTES TO FINANCIAL STATEMENTS

(A) Summary of significant accounting policies:

Basis of Consolidation. The consolidated financial statements include the accounts of the Corporation and all subsidiaries. Significant intercompany transactions are eliminated. The accounts of subsidiaries outside the United States and Canada are included in the consolidated financial statements on the basis of fiscal years ending on November 30. The accounts of foreign subsidiaries are translated at year-end rates of exchange since net non-current assets are insignificant and the effect on foreign operating results is not material. Unrealized gains on conversion are deferred if material and unrealized losses are charged to income currently.

Depreciation and Depletion. Depreciation generally is provided on a straight-line basis (accelerated method for income taxes) over the estimated useful lives of the assets. Depletion of natural gas and other mineral interests is provided on the basis of the unit cost method.

Long-Term Contracts. Income from long-term engineering and construction contracts is determined on the percentage of completion method.

Federal Income Taxes. Deferred income taxes are provided for the income tax effect of timing differences between book and tax income principally relating to depreciation, pension and other expenses. Investment tax credits, which are not material, are accounted for as a current reduction of income taxes. No provision for

income taxes has been made for the undistributed earnings of foreign subsidiaries (\$1,755,000) since such amounts will be invested indefinitely in such operations.

Nonmonetary Transfers. Nonmonetary transfers are recorded on the basis of the carrying amounts of the assets transferred.

(B) In 1972, the Corporation adopted the policy of consolidating the accounts of foreign subsidiaries and those organized for foreign activities. The accompanying financial statements have been restated to include the accounts of the previously unconsolidated subsidiaries as follows: income before extraordinary item and net income for 1972 and 1971 have been decreased by \$161,000 (\$.04 per share) and \$404,000 (\$.11 per share), respectively, and retained earnings at January 1, 1971 has been increased by \$1,775,000. The gross earnings and net assets of foreign subsidiaries included in the financial statements amounted to \$6,635,000 and \$1,714,000, respectively, in 1972 and \$4,864,000 and \$1,943,000, respectively, in 1971.

(C) Gross earnings from engineering and construction services include, generally on a percentage of completion basis, fees earned on agency contracts and the excess of revenues (\$36,971,000 in 1972 and \$27,936,000 in 1971) over direct construction costs (\$31,058,000 in 1972 and \$23,556,000 in 1971) on non-agency contracts. Such revenues and costs are exclusive of expenditures made directly by clients.

(D) The consolidated financial statements include the accounts of Stone & Webster Securities Corporation, the Corporation's investment banking subsidiary. The assets, liabilities and stockholder's equity of Securities and its subsidiaries were \$100,379,000, \$82,564,000 and \$17,815,000, respectively, at December 31, 1972 and \$63,412,000, \$48,881,000 and \$14,531,000, respectively, at December 31, 1971. Net income (loss) of Securities and its subsidiaries amounted to (\$41,000) in 1972 and \$945,000 in 1971.

(E) On June 15, 1972, the Corporation sold all of the stock of a subsidiary, Industrial Gas Supply Corporation, for approximately \$13,750,000, resulting in a net gain of \$3,974,000 after applicable income taxes. The oil and gas properties formerly owned by Industrial were not included in the sale but were retained and are now being operated by a new subsidiary, Enterprise Resources, Incorporated. Net income from discontinued operations was not material.

(F) Depreciation expense was \$1,394,000 for 1972 and \$1,410,000 for 1971. At December 31, 1972 depreciable assets were carried at \$13,796,000 after deducting accumulated depreciation.

(G) On November 15, 1972, the Corporation declared a quarterly dividend on its Common Stock payable January 17, 1973 in shares of common stock of Transcontinental Gas Pipe Line Corporation (Transco). The dividend, declared on the basis of one share of Transco stock for each 32 shares of the stock of the Corporation held, required 110,791 shares (at cost, \$252,000; at market, \$1,955,000) of the Corporation's holdings of Transco stock and cash in the amount of \$109,000 for fractional interests. Retained earnings were charged with \$361,000 representing the aggregate of the cost of the Transco shares and the related cash for fractional interests.

(H) In 1972, the Corporation exchanged certain shares of its holdings in investment securities for 125,700 shares of its Common Stock for its treasury. The cost of the investment securities exchanged (\$672,000) plus applicable federal income taxes (\$1,722,000) were added to the Treasury Stock account. The Corporation also purchased in 1972, 12,000 shares of its Common Stock for its treasury at a cost of \$474,000. In January 1972, 7,202 shares of Treasury Stock were issued in connection with the purchase of the assets and business of an investment banking firm. The excess of the market price (\$101,000) of the shares issued over the related cost thereof was credited to the Common Stock account. Results of operations of the acquired company, which are not material, have been included since acquisition. The Corporation has continued and may continue, from time to time, to purchase additional shares of its Common Stock, for possible use in the employee savings plan and for other corporate purposes, on the New York Stock Exchange, or otherwise.

(I) The Corporation and subsidiaries have retirement plans covering executive, administrative, technical and other employees. Total retirement expense for 1972 was \$2,380,000 as compared with \$2,171,000 for 1971. These expenses were funded on a current basis. The amounts include amortization of the unfunded balance of prior service cost over periods of from 20 to 30 years.

(J) Subsidiary companies are committed for annual rentals under long-term leases (to 1995) of \$5,100,000 in 1973, in descending amounts to \$2,500,000 in 1977. A subsidiary of the Corporation has contracted for the construction of a new office building expected to be completed in 1975. The estimated cost of the building, including land, is \$40,000,000.

(K) Certain subsidiaries have been named as defendants, along with others, in legal actions claiming damages in connection with construction projects. Counsel and management believe, on the basis of their examination and consideration of these matters, that these actions will not result in payment of amounts which would have a material effect on the financial statements.

Report of Certified Public Accountants

To the Board of Directors of
Stone & Webster, Incorporated:

We have examined the consolidated balance sheet of Stone & Webster, Incorporated and Subsidiaries as of December 31, 1972 and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Corporation for the year 1971, which have been restated as described in Note B to the financial statements. We did not examine the financial statements of certain consolidated foreign subsidiaries, which statements reflect total assets and gross earnings constituting 5% and 7%, respectively of the related consolidated totals in 1972 and 10% and 6%, respectively in 1971. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such foreign subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the reports of the other auditors, the aforementioned financial statements present fairly the consolidated financial position of Stone & Webster, Incorporated and Subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations and the consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the basis of consolidation as described in Note B to the financial statements.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 20, 1973

STONE & WEBSTER, Incorporated and Subsidiaries

TEN-YEAR S

	1972	1971	1970
Gross Earnings:			
Engineering and construction services	\$ 57,687,000	\$ 42,114,000	\$ 39,208,000
Consulting and other services	4,783,000	4,683,000	4,862,000
Securities underwriting and trading, and other income incident to investment banking business	16,545,000	15,712,000	11,392,000
Natural gas and oil sales, profit and other income from mineral interests (Note 2)	5,918,000	9,690,000	9,984,000
Cold storage and related activities	2,035,000	2,089,000	1,861,000
Dividends and interest	4,861,000	4,854,000	5,386,000
Profits on investment securities	—	1,131,000	7,864,000
Rents	1,510,000	1,527,000	1,444,000
Other	726,000	426,000	162,000
Total	94,065,000	82,226,000	82,163,000
Operating and General Expenses	60,544,000	57,105,000	49,926,000
Taxes, Other than Income Taxes	2,331,000	2,068,000	2,023,000
Provision for Depreciation and Depletion	1,633,000	1,652,000	1,467,000
Interest Expense	1,664,000	1,022,000	799,000
Total	66,172,000	61,847,000	54,215,000
Income before Provision for Income Taxes and extraordinary items	27,893,000	20,379,000	27,948,000
Provision for Income Taxes:			
Federal	10,278,000	6,699,000	9,647,000
State, local and foreign	2,091,000	692,000	1,604,000
Total	12,369,000	7,391,000	11,251,000
Income before extraordinary items	15,524,000	12,988,000	16,697,000
Extraordinary items	3,974,000	—	—
Net Income	\$ 19,498,000	\$ 12,988,000	\$ 16,697,000
Dividends paid	\$ 7,275,000	\$ 7,393,000	\$ 7,465,000
Dividends paid per share (Note 3)	\$1.92½	\$1.90	\$1.90
Earnings per share (Notes 3 and 4):			
Income before extraordinary items	4.13	3.34	4.25
Extraordinary items	1.06	—	—
Net Income	5.19	3.34	4.25
Summary of Balance Sheet at End of Year:			
Current Assets	\$155,680,000	\$109,476,000	\$ 77,068,000
Investment Securities	6,547,000	7,218,000	8,155,000
Long-Term Receivable, less amount included under Current Assets	2,279,000	2,649,000	3,019,000
Natural Gas and Oil Properties and Other Mineral Interests	4,644,000	11,717,000	11,689,000
Cold Storage Plant and Equipment	7,369,000	6,891,000	6,489,000
Office Buildings and Other Property	4,567,000	4,391,000	4,505,000
Other assets and deferred charges	10,897,000	10,660,000	8,959,000
Total Assets	\$191,983,000	\$153,002,000	\$119,884,000
Current Liabilities	\$103,458,000	\$ 73,900,000	\$ 44,405,000
Long-Term Debt, less amount shown under Current Liabilities	914,000	1,102,000	1,283,000
Other liabilities, deferred taxes and sundry credits	1,495,000	2,680,000	2,024,000
Deferred Profit	2,597,000	2,960,000	3,323,000
Stockholders' Equity:			
Preferred Stock	—	—	—
Common Stock, carried at	7,970,000	7,869,000	7,869,000
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000	8,927,000
Retained Earnings	83,675,000	69,973,000	64,354,000
Total	100,572,000	86,769,000	81,150,000
Less Common Stock in Treasury, at cost	17,053,000	14,409,000	12,301,000
Total Stockholders' Equity	83,519,000	72,360,000	68,849,000
Total Liabilities and Stockholders' Equity	\$191,983,000	\$153,002,000	\$119,884,000

Notes: (1) Years prior to 1972 have been restated to reflect the inclusion of foreign subsidiaries not previously consolidated.

(2) Includes gross earnings from Industrial Gas Supply Corporation (a former subsidiary) up to the date of its sale on June 15, 1972.

STATISTICAL INFORMATION (Note 1)

1969	1968	1967	1966	1965	1964	1963
\$ 31,384,000	\$ 25,789,000	\$ 23,685,000	\$21,269,000	\$ 22,969,000	\$17,515,000	\$15,040,000
5,316,000	5,018,000	5,148,000	4,697,000	4,612,000	4,050,000	3,488,000
10,928,000	7,361,000	7,400,000	4,201,000	3,750,000	3,421,000	4,248,000
9,929,000	9,501,000	8,938,000	9,040,000	9,116,000	8,912,000	9,062,000
1,611,000	1,438,000	1,279,000	1,012,000	842,000	751,000	427,000
5,038,000	4,990,000	4,740,000	4,840,000	4,336,000	3,643,000	3,637,000
218,000	660,000	—	—	4,000	240,000	—
1,278,000	1,240,000	1,007,000	928,000	994,000	995,000	990,000
14,000	165,000	14,000	56,000	45,000	12,000	18,000
65,716,000	56,162,000	52,211,000	46,043,000	46,668,000	39,539,000	36,910,000
43,704,000	35,536,000	31,651,000	30,191,000	26,061,000	23,546,000	22,245,000
1,831,000	1,706,000	1,278,000	1,341,000	1,484,000	1,497,000	1,418,000
1,356,000	1,278,000	1,264,000	1,208,000	1,217,000	910,000	1,053,000
726,000	468,000	281,000	238,000	351,000	216,000	137,000
47,617,000	38,988,000	34,474,000	32,978,000	29,113,000	26,169,000	24,853,000
18,099,000	17,174,000	17,737,000	13,065,000	17,555,000	13,370,000	12,057,000
5,555,000	4,892,000	5,594,000	4,679,000	4,931,000	4,327,000	4,246,000
1,857,000	1,621,000	1,179,000	(177,000)	1,481,000	685,000	495,000
7,412,000	6,513,000	6,773,000	4,502,000	6,412,000	5,012,000	4,741,000
10,687,000	10,661,000	10,964,000	8,563,000	11,143,000	8,358,000	7,316,000
—	—	646,000	—	717,000	—	—
\$ 10,687,000	\$ 10,661,000	\$ 11,610,000	\$ 8,563,000	\$ 11,860,000	\$ 8,358,000	\$ 7,316,000
\$ 7,541,000	\$ 7,255,000	\$ 7,164,000	\$ 7,216,000	\$ 6,730,000	\$ 6,199,000	\$ 6,178,000
\$1.90	\$1.80	\$1.75	\$1.75	\$1.62½	\$1.50	\$1.50
2.69	2.65	2.68	2.08	2.69	2.02	1.78
—	—	.16	—	.17	—	—
2.69	2.65	2.84	2.08	2.86	2.02	1.78
\$ 70,026,000	\$ 80,137,000	\$ 62,315,000	\$56,000,000	\$ 68,744,000	\$41,644,000	\$36,362,000
9,600,000	9,630,000	10,004,000	9,446,000	9,446,000	9,633,000	9,655,000
3,389,000	3,944,000	4,499,000	5,054,000	5,610,000	6,165,000	6,781,000
11,593,000	11,630,000	11,862,000	11,636,000	11,677,000	10,810,000	10,472,000
5,628,000	5,520,000	5,181,000	4,705,000	4,504,000	4,564,000	4,049,000
3,927,000	3,226,000	3,292,000	3,266,000	3,223,000	4,360,000	4,302,000
8,097,000	4,565,000	4,064,000	4,186,000	3,881,000	2,341,000	1,835,000
\$112,260,000	\$118,652,000	\$101,217,000	\$94,293,000	\$107,085,000	\$79,517,000	\$73,456,000
\$ 44,723,000	\$ 51,959,000	\$ 33,822,000	\$29,456,000	\$ 42,528,000	\$19,042,000	\$14,555,000
1,458,000	1,629,000	1,794,000	2,155,000	2,312,000	2,465,000	2,517,000
2,280,000	2,223,000	2,270,000	2,012,000	1,544,000	1,431,000	1,089,000
3,867,000	4,412,000	4,956,000	5,501,000	6,045,000	6,650,000	7,255,000
—	—	—	—	—	—	—
7,874,000	6,778,000	6,607,000	6,588,000	6,481,000	6,363,000	6,111,000
8,927,000	8,927,000	8,927,000	8,927,000	8,927,000	8,927,000	8,927,000
55,117,000	51,953,000	48,609,000	43,413,000	42,051,000	37,442,000	35,805,000
71,918,000	67,658,000	64,143,000	58,928,000	57,459,000	52,732,000	50,843,000
11,986,000	9,229,000	5,768,000	3,759,000	2,803,000	2,803,000	2,803,000
59,932,000	58,429,000	58,375,000	55,169,000	54,656,000	49,929,000	48,040,000
\$112,260,000	\$118,652,000	\$101,217,000	\$94,293,000	\$107,085,000	\$79,517,000	\$73,456,000

(3) Per share figures prior to 1967 have been restated to reflect the two-for-one stock split in December 1967.

(4) Per share figures based on average number of shares outstanding during each period.

THE STONE & WEBSTER ORGANIZATION

Listed below, with an outline of their major activities, are the principal corporate components of the Stone & Webster organization. The subsidiaries listed are 100 per cent owned.

Stone & Webster, Incorporated is principally engaged in the coordination of the activities and policies of its subsidiaries. It also owns certain interests, mainly in the natural gas industry, and is prepared to participate in promising enterprises which may not be in a position to obtain public financing.

Stone & Webster Engineering Corporation furnishes complete design and construction services for power and industrial projects and, through its Process Industries Group, to companies in the petroleum, chemical, paper and pharmaceutical fields. It also constructs from plans developed by others, makes engineering reports, business examinations and appraisals, and undertakes consulting engineering work.

Stone & Webster Engineering Limited, with offices at 20, Red Lion Street, London WC1R 4PT, furnishes design and construction services, particularly for petroleum and chemical companies, in Great Britain, Europe, the Middle East and Australia, in association with Stone & Webster Engineering B.V. (Rijswijk, Holland), Stone & Webster Engineering S.A. (Paris), and Stone & Webster Engineering Pty. Limited (Sydney, New South Wales).

Stone & Webster Management Consultants, Inc. supplies comprehensive management consulting services for business and industry, including public utility, transportation, pipeline, land development, banking, petroleum and manufacturing companies. Government agencies, foreign and domestic, also use these services. Foreign assignments are conducted by Stone & Webster Overseas Consultants Inc. and Stone & Webster Service Pty. Limited (Melbourne).

Stone & Webster Securities Corporation furnishes comprehensive financial services to issuers of securities and to investors, and engages in underwriting and distributing, at wholesale and at retail, corporate, government and municipal bonds, as well as preferred and common stocks. It also handles orders in issues traded on all stock exchanges and in the over-the-counter market.

Stone & Webster Canada Limited, with headquarters office at 60 Adelaide Street East, Toronto 210, offers to Canadian industry the services of the entire Stone & Webster organization, with particular emphasis on design and construction, reports, appraisals, surveys and general advisory services. Design and construction services in the mining and metallurgical fields are furnished to clients both within and outside of Canada.

Enterprise Resources, Incorporated owns and operates gas and oil production properties in Texas.

Enterprise Gas, Incorporated is engaged in purchasing, gathering and transporting natural gas for resale to distributors, and also in exploring for and developing natural gas and oil properties in the United States.

San Salvador Development Company, Inc. owns natural gas and other mineral interests, principally in Texas.

Spruce Hills Production Company, Inc. owns oil and natural gas interests in Canada, principally in the Province of Alberta.

Commercial Cold Storage, Inc. is engaged in modern cold storage warehousing and offers blast-freeze and a wide variety of other refrigeration services in the Metropolitan Atlanta area of Georgia to food-processors and others.

The Stone & Webster Building, Incorporated operates, for Stone & Webster, Incorporated, the Stone & Webster building located at 90 Broad Street, New York, N. Y. Approximately 40% of the available space is occupied by the Stone & Webster organization, and the balance is rented to others.



STONE & WEBSTER, INCORPORATED / 90 Broad Street, New York, N. Y. 10004